

DECISION MEMORANDUM

TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: NEIL PRICE
DEPUTY ATTORNEY GENERAL

DATE: JANUARY 9, 2008

SUBJECT: IDAHO POWER'S APPLICATION FOR A CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY AUTHORIZING THE
INSTALLATION OF AMI TECHNOLOGY THROUGHOUT ITS
SERVICE TERRITORY; CASE NO. IPC-E-08-16

On August 5, 2008, Idaho Power Company ("Idaho Power" or "Company") submitted an Application for a Certificate of Public Convenience and Necessity ("CPCN"), pursuant to *Idaho Code* §§ 61-502A, 61-503, 61-525, 61-526, RP 52, and RP 112, "to install Advanced Metering Infrastructure ("AMI") technology throughout its service territory, granting authorization to accelerate the depreciation of the existing metering infrastructure, and including the corresponding operation and maintenance benefits as they occur." Application at 1. The Company requested that its Application be processed through Modified Procedure. IDAPA 31.01.01.201-.204.

On August 19, 2008, the Kroger Company dba Fred Meyer and Smith's Food and Drug ("Kroger") filed a Petition for Leave to Intervene pursuant to IDAPA 31.01.01.071-.073.

On September 9, 2008, the Commission issued a Notice of Application and Modified Procedure and allowed 90 days for interested parties to submit their comments to the Commission regarding Idaho Power's Application. *See* Order No. 30637. Thereafter, the Commission received written comments from the Commission Staff, Idaho Conservation League, AARP Idaho and Idaho residents.

THE APPLICATION

Idaho Power's CPCN Application states that the Company plans to implement AMI technology throughout its service territory over a three-year period commencing in 2009. *See id.* at 5. The Company will utilize a phased implementation approach of the AMI technology, beginning with its Capital Region (including the Boise, Kuna, Meridian, Eagle communities) in 2009, Canyon and Payette Regions (including the Nampa, Caldwell, Payette and Ontario communities) in 2010 and its Southern and Eastern Regions (including the Twin Falls, Hailey, Jerome, Pocatello and Salmon communities) in 2011. *Id.* Installation of the new meters will generally progress along established meter reading routes until completion. *Id.*

As support for its Application, Idaho Power cites numerous Commission Orders instructing the Company to implement AMI "as soon as possible." Order No. 29196 at 10; *see* also Order Nos. 28894, 29026, 29362 and 30102. The Company believes that AMI offers numerous long-term benefits to its customers. Idaho Power points to the obvious advantages of reduced operational costs associated with meter reading, as well as future anticipated benefits referenced by the Commission in a prior Order discussing the issue:

AMR would improve meter reading accuracy, eliminate the need for Idaho Power to gain access to customer property for monthly meter reads, and allow Idaho Power to develop new services in the future. An AMR system would improve outage monitoring, theft detection, and employee safety. AMR's capacity for remote connects and disconnects would also save customer time and employee labor. From a billing perspective, AMR would result in fewer estimated bills, less rebilling, flexible billing schedules, account aggregating, and flexible rate designs.

Order No. 29196 at 10. Idaho Power adds that the AMI technology it has selected is "fully capable of enabling the various other functionalities anticipated by the commission, and mentioned above, as well as other 'smart-grid' operations into the future." Application at 6. Customers will begin to see better outage management capabilities immediately but the full benefits associated with hourly data collection will require some additional time to allow for "additional back office systems and rate structures" to be put in place. *Id.*

Idaho Power states that it has already selected vendors and executed contracts for the purchase of the necessary hardware, software and labor for AMI installation. *Id.* at 7-8. The project will require multiple vendors (4) due to the lack of a single-source vendor offering all of the requisite products and services necessary for AMI installation. *Id.*

Idaho Power does not request a rate increase in conjunction with its Application. In addition to a CPCN permitting the installation of AMI technology throughout its service territory, Idaho Power requests the following:

. . . that, in the ordinary course of events, Idaho Power can expect to rate base the prudent capital costs of deploying AMI as it is placed in service, accelerate the depreciation of the existing metering infrastructure replaced by AMI over the three-year deployment, and include the operation and maintenance benefits in the accounting methodology.

Id.

The Company claims that it has arrived at a “good faith estimate” of the total capital cost of the three-year AMI installation project. *Id.* at 9. The estimate of the total capital cost for the project is listed in the Application as \$70.9 million plus “certain additional costs that the Company knows it will incur but cannot quantify with precision at this time.” *Id.* The capital cost does not include the accelerated depreciation of the existing metering infrastructure or the operation and maintenance benefits associated with the deployment of the new AMI technology.

Id.

The Company’s Application states that its current estimate is subject to revision “for documented, legally-required equipment changes and material changes in assumed escalation or growth rates not foreseen at the time of this Application.” *Id.* Idaho Power commits to absorbing any “extra” capital cost above the “adjusted Commitment Estimate” and including in its rate base only the amount actually incurred up to this “adjusted Commitment Estimate.” *Id.*

In anticipation of project commencement in January 2009, Idaho Power has made certain equipment and material purchases totaling \$1.2 million and states that it will be required to make additional purchases of approximately \$5 million in September and October 2008. *Id.* at 10.

Idaho Power requests that its Application be processed in an expedited manner through Modified Procedure. The Company filed testimony from employees John R. Gale, Courtney Waites and Marc Heintzelman concurrent with its Application filing. *Id.*

IDAHO CONSERVATION LEAGUE COMMENTS

Idaho Conservation League (“ICL”) is Idaho’s largest state-based conservation organization. ICL represents over 9,500 members. ICL urges the Commission to approve Idaho Power’s Application for a CPCN to install AMI technology throughout its service territory.

ICL believes that the installation of the AMI technology will provide extensive benefits to Idaho Power, ratepayers and the environment. ICL states that AMI will improve the Company's planning process by providing enhanced customer usage data and that it will encourage energy consumers to be more efficient. According to ICL, this will inevitably lead to a decrease in demand for additional supply side resources and thus have a dramatic impact on the environment by reducing carbon dioxide emissions.

ICL also states that ratepayers will benefit financially from AMI through reduced operation and maintenance expenses. Finally, ICL states that ratepayers will benefit from the improved system reliability, outage detection and billing accuracy offered by AMI.

AARP IDAHO COMMENTS

AARP Idaho is the state office of AARP, a national organization which actively promotes the welfare and interests of senior citizens and retirees. AARP Idaho offered general criticisms of the purported benefits of AMI and thus recommends that the Commission deny Idaho Power's Application for a CPCN to install AMI throughout its service territory.

AARP Idaho believes that the Commission should convene a formal hearing in order to provide a "full opportunity for discovery of the Company's testimony and exhibits, the ability to offer testimony in opposition to the Company's statements and evidence, . . . the opportunity for cross examination, and a decision 'on the record.'" AARP Idaho Comments at 10. The organization's primary concerns include the following:

1. Providing adequate opportunity for the "public to review the [AMI] costs that will ultimately be included in rates";
2. The ability of many low income consumers of electricity, including seniors, to shift enough of their electricity usage to non-peak times;
3. AMI's potential impact upon existing consumer protection, privacy and customer service policies (e.g. rules pertaining to disconnection and billing);
4. The potential that AMI's purported benefits to customers may be exceeded by the Company's rate recovery;
5. Measuring the "implicit costs" borne by consumers who are compelled to spend time and effort tracking their kWh usage in order to take advantage of usage pricing programs;

6. Installing technology that will inevitably eliminate jobs during an economic recession; and
7. Ensuring that “vulnerable populations, such as low income consumers and consumers with health problems,” are not adversely impacted by substantial bill increases resulting from AMI installation.

Id. at 5-8.

AARP Idaho recommends that the Commission “take no action to approve [Idaho Power’s] proposal” and initiate a technical hearing to more fully “consider the costs and benefits of AMI . . .” *Id.* at 7, 21. The organization recommends that the “current pilot programs should be expanded and more data should be collected to allow for a proper review of the costs and benefits associated with offering time-based pricing options to IPC’s residential customers.” *Id.* at 7.

IDAHO RESIDENT COMMENTS

The Commission received two written comments from Idaho Power customers regarding the Company’s Application. The customers’ concerns included:

1. Risk of increasing customer rates to pay for the capital expense of installing the AMI technology;
2. Increased control by the Company pertaining to when customers use the electrical system;
3. Impact of the proposed AMI technology upon a customer’s “pre-existing home automation” technology;
4. Adequate monitoring and oversight of the Company’s installation of the AMI technology; and
5. Access to information regarding the ‘pros’ and ‘cons’ of the proposed AMI technology.

STAFF COMMENTS

Staff reviewed Idaho Power’s Application, including the Company’s filed testimony, exhibits and responses to Staff Production Requests, and is “generally supportive of the Company’s Application requesting a Certificate of Public Convenience and Necessity to install AMI technology throughout its service territory.” Staff Comments at 3.

Staff noted its longstanding belief that “AMI is cost effective and that the operational savings and potential benefits . . . support the capital expenditure required to deploy AMI.” *Id.* “Staff supports the Company’s request to rate base the prudent capital costs of deploying AMI as it is placed in service, and to capture the operation and maintenance benefits simultaneously.” *Id.* at 8. Staff believes that the ultimate determination of the prudence of those costs should take place during a subsequent rate proceeding. *Id.*

Staff summarized the procedural and factual background leading up to the Company’s current Application for a CPCN authorizing the installation of the AMI technology throughout its service territory. Staff identified Commission Order No. 28894 issued on November 21, 2001, as an early directive by the Commission for the Company to explore time-of-use (TOU) metering.

The Company responded to this directive by studying the economic feasibility of installing an Automated Meter Reading (AMR) system and ultimately concluded that it would not be a prudent investment. The Commission intervened and issued its final Order on the matter, directing the Company to submit a “Phase One AMR Implementation Plan to replace current residential meters with advanced meters in selected service areas . . . [.]” leading to the Company’s deployment of AMI to approximately 27,000 customers in McCall and Emmett in November 2004. Order No. 29362.

Staff then recounted the improvements to the “AMI modules” since the Company’s 2004 Phase One Implementation in McCall and Emmett. According to Staff, the cost of each individual AMI end point has declined dramatically from \$292 to \$136. *Id.* at 5. The technology has also improved significantly, providing larger memory for more reliable data retrieval and expanded data collection bandwidth. *Id.* Staff believes that the Company has “resolved the technological issues encountered during Phase One Implementation and justified its selection of AMI equipment . . .” *Id.* at 7.

Staff identified the immediate and potential future benefits of AMI technology that have been previously outlined in the Company’s Application and prior Commission Orders. *See supra* p. 2-3. Staff “acknowledge[d] that there are additional soft benefits, namely those associated with improved billing accuracy, that have not been quantified.” *Id.* at 10. Also, AMI technology will allow the Company to eventually implement “TOU pricing [and] certain demand response programs . . .” *Id.* at 15. Nonetheless, Staff believes that AMI’s cost-effectiveness is

not contingent upon these potential benefits. *Id.* The immediate benefits offered by the proposed AMI technology are enough to justify its implementation. *Id.*

Staff stated that Idaho Power should be permitted to conduct its system-wide implementation in substantially the manner proposed by the Company. Staff recommends that once AMI technology has been installed in a given region of its service territory, the Company should “offer its Energy Watch and Time of Day [pilot] programs to as many customers as current system capabilities will allow.” *Id.* at 15. Customer participation should be voluntary and these programs should not continue indefinitely. *Id.*

Staff emphasized the importance of providing “real time” usage information to customers. Accordingly, Staff recommends that the Company inform customers of the availability of power cost monitors such as the Blue Line, Aztech and Energy Detective devices.” *Id.* at 15-16. These commercially available devices enable customers to acquire “information on energy usage and the associated cost on a real time basis.” *Id.*

Staff does not support the Company’s request to accelerate the depreciation of its existing meters due to the rate impact on customers. *Id.* at 8. Staff estimates that an accelerated three-year depreciation period “would increase the Company’s revenue requirement by \$11.8 million the first year, \$10.5 million the second year and \$9.2 million in the final year.” *Id.* Staff noted that “other utilities have successfully implemented AMI in Idaho without accelerating the depreciation of the old meters.” *Id.* Staff suggests that the cash flow concerns put forward by Idaho Power as justification for the three-year period of depreciation should be balanced with the potential rate impact on customers. Thus, Staff considers an accelerated five-year depreciation period to be reasonable. *Id.* at 16.

IDAHO POWER REPLY COMMENTS

The Company’s reply comments focused primarily on the appropriate period for accelerated depreciation of its existing metering infrastructure. As mentioned above, Staff recommends a five-year accelerated depreciation period of the Company’s existing metering infrastructure. Idaho Power reiterated that a three-year accelerated depreciation period is critical in order to provide the Company with “adequate cash flow to improve cash flow coverage ratios[,] maintain Idaho Power’s credit strength and its ability to access external markets for funding capital projects . . .” Idaho Power Reply Comments at 2. The Company estimates that

Staff's recommended depreciation period "would result in an annual reduction to cash flows of approximately \$3.7 million . . ." *Id.*

Idaho Power also believes that Staff has incorrectly estimated the revenue requirement impact of the undepreciated balance of its existing metering equipment. The Company asserts that the balance is approximately \$27 million. Thus, the Company states that "with a three-year acceleration of depreciation, the annual revenue requirement would amount to an increase of \$9.2 million" and not the amounts of \$11.8 million for the first year, \$10.5 million for the second year and \$9.2 million for the third year put forth in Staff's Comments. *Id.* at 3. As support for this contention, the Company pointed to the Operation and Maintenance benefits from AMI deployment that will be used as an offset to the revenue requirement increase. *See* Application, Waites Testimony, Exhibit Nos. 4, 6.

COMMISSION DECISION

1. Does the Commission wish to grant Idaho Power's Application for a CPCN authorizing the Company to install AMI technology throughout its service territory?

a. If so, does the Commission wish to authorize a three-year (Idaho Power) or five-year (Staff) period of depreciation for the Company's existing metering infrastructure in Account 370.00?

b. If so, does the Commission wish to direct Idaho Power to offer its Energy Watch and Time-of-Day Pilot Programs to its customers concurrent with the implementation of its AMI technology throughout its service territory?



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